ANNUAL BUDGET OF

NQUTHU LOCAL MUNICIPALITY

"phambili ngentuthuko eNquthu"

"forward with development at Nquthu"

2017/18 TO 2019/20

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

Table of Contents

Part 1 – Annual Budget

1. Mayor's Report

Mayor's Report (2017/2018 Budget)

A BUDGET THAT BRINGS HOPE IN TOUGH POLITICAL TIMES!!!

Greetings all

This budget for 2017/2018 is prepared in tough times in Nquthu community where after the 3rd August 2016 elections there has been no formal Council sitting until the KZN Provincial Council dissolved it in February in 2017 and the decision was confirmed by the Minister responsible for local government as well as the NCOP as required by the Constitution section 139 (1) (c). The new elections are set for 24 May 2017.

In these tough times the community needs to have hope that the municipality is fully functioning and that the services are rendered as required by the community. It is against this background then that we should be very sensitive to the residents of Nquthu and ensure that they do not lose hope any further.

As appointed by the KZN Cabinet to represent it in the municipality it is then incumbent on me to work together with the municipal administration which, fortunately seems quite stable, to ensure that we give the citizens this hope they so desperately need.

I have assumed all the powers that are delegated to the municipal council subject to those that cannot be delegated to me in terms of the Constitution of the Republic, 1996.

Our budget is aligning with our strategic objectives as set out in the IDP.

- Fully fledged vehicle and drivers testing station (Grade A)
- Firefighting station building
- Putting infrastructure in undeveloped land to facilitate economic growth
- Electricity projects subject to budget availability by Eskom
- Roads network funded by Municipal Infrastructure Grant (MIG)
- Community structures in terms of halls and sports facilities
- Rehabilitation of surfaced roads within the town and human settlement areas
- Implementation of the Municipal Standard Chart of Accounting (MSCOA) as well as related financial reforms.
- Fully explore the potential of tourism through our rich heritage of battlefields corridor
- Support the LED through the SMME incubator and other agricultural activities.

Non-payment for property rates, electricity and refuse is still a growing concern for the municipality as there is a continued increase in the debt owed by the residents, this is caused by current economic climate and high levels of poverty we are experiencing in our region. We, however, still expect those that can afford to honour this critical financial commitment for each and every household. The other worrying factor is non-payment by government departments.

This is causing a strain on the municipal finances and the inter-governmental avenues are currently being explored to ensure that these are paid. This is compounded by the high losses in the electricity trading account.

The municipality is also seeing a high exodus of skilled employees leaving for other municipalities, this creates a vacuum that is hard to fill, the primary cause is seen as the uncompetitive salaries, this puts us on a tight corner as we must also ensure that we do not exceed the maximum norm for salary costs.

The municipality must prepare a budget that is; funded, credible, sustainable and relevant. The municipality has always achieved this in all previous budget years considered.

In the past 12 months Nquthu area has been in the news for all the wrong reasons and we need to ensure that we erase that by improving our public participation and our communication strategy.

We call upon our citizenry from all walks of life to take some trouble to look at our 2017/2018 MTREF and provide us with written comments so as to ensure that such views are encapsulated in the final document for approval by the incoming Council later in this financial year. Our Budget and Treasury Office will also welcome verbal contributions which people can make by popping into our offices with their comments.

2017/18 MTREF SUMMARY (please note the summary will be inserted once all the figures have been finalized for submission)

Underlying Principles - Draft Budget

- The bulk purchases of electricity are above the National Treasury inflationary guidelines. Although the increases by Eskom and approved by the NERSA are beyond Council's control, this budget is structured such as to absorb these excessive increases and keep the majority of electricity tariff increases within 1.8%;

- Repairs and Maintenance provisions reach the best practice parameters of 8% of Asset Cost and 13% of Operating Expenditure target;

- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

Tariff Approach

Tariffs increases respond to the current economic downturn because over the years we have had higher increases, as directed by the Budget circulars. On average our tariff increase are around 6% on all the tariffs that are applicable to the municipality which are detailed in the tariffs booklet, with the exception of Electricity which is around 1.88%.

Challenges

There have been various challenges that will be fully detailed in the budget book mostly emanating from the limited funding the municipality has had as well as the implementation of MSCOA which caused some delays in finalizing the budget.

Indigent Support

- Free 50 kilowatts of electricity;
- Free Rates if property is valued less than R100 000;
- Free Refuse if property is valued less than R100 000;
- Free Refuse collection in Traditional areas through the use of skips;
- Over and above the free services indigent consumers not catered for as per above are assisted subject to the application on a form designed for that purpose by the Municipality.

Pensioners and Social Grantees

Pensioners who are already registered to receive a rebate will now only receive a form to complete rather than following the lengthy registration process.

Rebate of R200 000.00 on Primary residential property on application.

Capital Budget

The 2017/18 Capital Budget amounts to R 98 million and a detailed list of all the projects is contained in the budget document.

Conclusion

In closing I would like to take this opportunity to thank the Municipal Manager and his management team as well as all other municipal officials for their hard work in putting together the 2017/18 MTREF.

Thank you

The Mayor

Honourable Cllr. SM Kunene

2. Council Resolutions

1. THAT the Administrator of Nquthu Local Municipality, appointed in terms of Constitution section 139 (1) (c), acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) and pending the inauguration of Council after the By-elections, resolves to recommend to the Kwa-Zulu-Natal Provincial Executive Committee to approve and adopt:

1.1 The annual budget of the municipality for the financial year 2017/18 and the multi-year and single-year capital appropriations as set out in the following tables:

1.1.1 Budget summary as contained in Table A1;

1.1.2 Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in table A2;

1.1.3 Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3; and

1.1.4 Budgeted Financial Performance (revenue and expenditure) as contained in Table A4;

1.1.5 Budgeted Capital Expenditure by vote, standard classification and funding as contained in Table A5;

1.2 The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

1.2.1 Budgeted Financial Position as contained in Table A6;

1.2.2 Budgeted Cash Flows as contained in Table A7;

1.2.3 Cash backed reserves and accumulated surplus reconciliation as contained in Table A8;

1.2.4 Asset management as contained in Table A9; and

1.2.5 Basic service delivery measurement as contained in Table A10.

2. The Council of Nquthu Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems ACT (ACT 32 of 2000) after its inauguration after the By-election approves and adopts with effect from 1 July 2017:

2.1 The tariffs rates property - as set out in the Annexure A

2.2 The tariffs for electricity – as set out in Annexure B

2.3 The tariffs for solid waste services - as set out in Annexure C

3. The Administrator of Nquthu Local Municipality, appointed in terms of Constitution section 139 (1) (c), acting in terms of section 75A of the Local Government: Municipal Systems ACT (ACT 32 of 2000) resolves to recommend to Council to approve and adopt with effect from 1 July 2017 the tariffs for other services, as set out in annexure D.

4. To give proper effect to the Municipality's annual budget, the Council of Nquthu Local Municipality approves:

4.1 That cash backing is implemented through the utilisation of a portion of the revenue generated from the property rates to ensure that all capital reserves

and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

4.2 That the Municipal Manager be authorized to sign the quality certificate.

5. The draft tabled budget be sent to Provincial Treasury and National Treasury as legislated both in electronic and printed format as legislated.

6. The public consultation process be undertaken as legislated.

3. Executive Summary

The municipality as is the case in the whole is faced with financial difficulties and there is a pressure to continue with controlled spending and continue reducing expenditure that is unnecessary.

The municipality has identified the piece of land that we must dispose so that we can see economic spin-offs, these will be used for residential as well as commercial purposes. The only set-back that we have is that this does not have existing infrastructure in terms of roads, electricity and water. We have obtained the costing assessment for this and with our available resources we will not be able to afford it therefore we shall look at other funding alternatives that we may have, like taking out loan for this.

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The productive involvement of the departments in the budget preparation process, there is persistent lack of cooperation, this leads to very ambitious and unreasonable estimates given that pushes the budget to deficit, this has been happening over the years.

There has been meetings held with the Senior Management and also involved the Middle Management to try and achieve credible budget. This has been ultimately achieved.

A critical review was also undertaken of expenditure on non-core and non-priority spending items in line with NT's Cost containment measures outlined in NT's MFMA circulars number 82 updated and 86..

Emphasis was placed on providing of funds for the repairs and maintenance expenditure line items.

In light of the above cost containment measures the following expenditure line items were identified as non-core and non-priority:

• Subsistence allowances – no increase of tariffs from 2016/17;

• Accommodation allowances – no increase of tariffs from 2016/17;

• Security costs – a working team established to identify alternative security measures and thus reduce expenditure to below 2016/17 Adjusted Budget;

• Events costs - reduce to 50% below 2016/17 Adjusted Budget; and

The main challenges experienced during the compilation of the 2017/18 MTREF can be summarised as follows:

• The need to reprioritise projects and expenditure within the existing resource envelope. By far the greatest concern here lies with all the services financed by Property Tax (Rates).;

• The majority of households in Nquthu do not pay Property Rates. This because the individual properties within the Ingonyama Trust land are not separately valued and not subject to the Municipal Property Rates Act. This despite the same communities enjoying most of the municipal services that are funded by Rates Income;

• There is no Equitable Share allocation for properties that do not pay Property Rates;

• The Electricity Trading account is operating at a deficit and there is no indication that this can be rectified any time soon, but we are busy with strategies to improve the situation;

• The dire need for credible business plans and budget working papers from the service delivery Departments remains a difficult hurdle to overcome;

• Although Employee related costs as a percentage of total Expenditure amounts to 25.5% and appears to be below the 30% industry standard, it is not realistic for Nquthu Municipality to be comfortable with this figure because of the high electricity purchase cost which distorts Council's budget figures when compared to other secondary cities;

• The lack of feasible results in Other Revenue sources for example vehicle licensing, Traffic Fines, Licenses and Permits is placing unsustainable pressure on Rates. This is particularly anomalous in light of the fact that these fees should increase in an area where population and related vehicle numbers are increasing in yet income is reducing;

• Affordability of capital projects – original allocations had to be reduced as well as the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2017/18 MTREF process;

• The dire need for an efficient and effective business ethic to be applied to all the municipality's business processes regardless of whether the intended outcome of such process is of a social, economic or profit making nature;

• Insufficient capital investment for all major infrastructure improvements and Renewal of Existing Assets; and

• The transition to a new financial system and a new chart of accounts (m-SCOA) in this financial year has placed the administration under tremendous strain to compile this budget. The future years' outcome however appears very promising in terms of

the m-SCOA objectives. The municipality is on course with the implementation of MSCOA in 2017/2018 financial year.

4. Operating Revenue Framework

The municipality is highly dependent on the Equitable Share, although we do have the electricity trading licence but currently the losses from this are very huge and the municipality ends up subsidizing this.

Although the traffic department is now functioning we still encounter problems with regards to the traffic fines that are issued by the law enforcement in the sense that the state prosecutor more often than not cancels the fines or reduces them drastically. And this is impacting on the budgeting procedure as this is proving to be unpredictable. The traffic section is expanding further by establishing the vehicle testing ground and they are also planning to do driver testing in future. The vehicle licence renewal is currently done at the SA Post Office and the Department of Transport indicated that they do not plan to move this over to the municipality.

5. Operating Expenditure Framework

The municipality's expenditure framework for the 2017/18 budget and MTREF is informed by the following:

- Given that one of the primary drivers of this budget is to keep tariff increases with the inflationary envelope of 6%, expenditure allocations in excess of the 2016/17 Adjustments budget are very limited;
- Despite the above restriction the Chief Financial Officer has ensured that Repairs and Maintenance provisions are within best practice parameters of 8% of Asset Cost and 13 % of Operating Expenditure. The weakness here however is that there is no Municipal wide asset repairs and maintenance plan. Repairs and Maintenance is done in silo's hence it lacks in synergistic benefit of ensuring budget allocations are used efficiently and effectively;
- Related to the above weakness the capital programme carries the risk on not ensuring that the asset renewal strategy and backlog eradication is achieved in this budget;
- The Budget makes a marginal surplus (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit.
- Funding of the budget over the medium-term is informed by Section 18 and 19 of the MFMA
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and

- Strict adherence to the principle of "no project plan no budget". If there is no business plan no funding allocation can be made. This is incumbent of the Accounting to enforce to the HOD's.

The following table is a high level summary of the 2017/18 budget and MTREF (classified per main type of operating expenditure):

The budgeted allocation for employee related costs for the 2017/18 financial year totals R51 million, which equals 26 per cent of the total operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 6 per cent for the 2017/18 financial year. An annual increase of 5.9 and 5.8 per cent has been included in the two outer years of the MTREF.

Currently there are labor issues that needs to be addressed which may have a huge impact on the salary bill. One of the overriding solutions here is that of a Municipal Grading in the first instance and an organogram suited for such grading for the administration. Since establishment of the municipality the structure of the organogram is dictated by the influences of the different Councils over the years and different managers, hence no collectively and best practice structured staff structure. The correct grading will rationalize this anomaly and ensure the trajectory of future posts created and filled is done properly.

The newly appointed council has decided to split into two the Corporate and Community Services directorate into two, this will have an impact of one additional Senior Manager accountable to the Municipal Manager as well the Personal Assistance attached to the Senior Manager, there is no other posts that will be brought about by this change as the posts are already existing and it is the matter of split.

The cost associated with the **remuneration of councilors** is determined by the Minister of Cooperative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). An increase of 6 per cent has been budgeted for the 2017/18 financial year. In the previous term only the Mayor and the Deputy Mayor were full-time, the new council is looking at adding the Speaker to be full-time as well, although the establishment notice did not provide for any full-time councilor this term, these three have been budgeted for at full-time should the application to be made to the MEC is successful.

The provision of debt impairment was determined based on an annual collection rate of less than 60 per cent and the Debt Write-off Policy of the municipality. For the 2017/18 financial year this amount is R 2,2 million. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically

anticipated revenues. The accounting requirement of not writing bad debt to the provision but rather depicting an actual expense in the year of the write off may cause the municipality to review the estimates upwards in line with actual consumer trends at period reviews of the debtors. The amounts budgeted for also do not include the subsequent measure of Traffic fines which was a material impairment with the implementation of iGRAP 1.

Provision for depreciation and asset impairment has been informed by the Municipality's Financial Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R 11 million for the 2017/18 financial and equates to 9.6 per cent of the total operating expenditure.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases have been factored into the budget appropriations.

The expenditure does not includes distribution losses because the Technical services still needs to device a proper system for the accounting of all losses that are being incurred.

Other materials comprise the purchase, of materials for maintenance. In line with the municipality's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the municipality's infrastructure. The appropriation against this group of expenditure has grown, however further effort will be made in the outer years to increase this appropriation over and above the inflationary boundaries.

Contracted Services these are to be kept to the minimum and the use of consultants is always discouraged. Further details relating to contracted services can be seen in MBRR SA1

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. No significant growth has been allowed here for the 2017/18 year with a 6 per cent allowed in the 2018/19 year.

Catalyst Projects

- **Youth -** In line with the vision of the municipality there is a huge expenditure that is invested in the uplifting of the youth through various initiatives.
- **LED –** Since Nquthu town is very rural there is very limited economic activities in the area and the municipality is currently implementing the small business incubator to assist with the development of local businesses.
- **Tourism and Heritage -** the municipality is in the battlefield rout and with rich history in respect of Isandlwana battlefield. With this the municipality is currently exploiting opportunities that can be beneficial to the community, although we are hindered by the powers and functions to proceed as most

functions relating to this battlefield are either with the National or Provincial Government.

6. Capital expenditure

The area if Nquthu is deeply rural and there is a challenge of access roads to the settlements and as such the focus of the municipality is the construction of roads infrastructure, but this is only gravel roads. The majority of our funding is from MIG and the other part is from own funding.

As per DorB of 2017 Appendix w3 appendix to schedule 5, part b: Municipal Infrastructure Grant, an amount of R 11 million in MIG is ring-fenced for *Construction of sports facilities, multi-purpose sports courts, community centre, installation of floodlights.*

Ngedla Hall- Ward 10	2,686,960.00	-	-
Ntanyandlovu Hall- Ward 11	260,799.80	-	-
Thelezini Hall- Ward 15	214,719.93	-	-
Mabululwane Hall- Ward 08	2,711,471.14	-	-
Zicole Hall- Ward 13	67,945.47	-	-
Gubazi Hall –Ward 11	631,587.20	-	-
Kwayise Hall (Ward 02)	2,800,000.00	200,000.00	
Masakhane Hall –Ward 05	-	1,500,000.00	200,000.00
Mkhonjane Hall- Ward 15	-	-	2,100,000.00
Ndatshana Hall –Ward 16	-	-	2,100,000.00
Gwija Hall –Ward 01	-	-	2,100,000.00
Trading Shelters – ward 06	-	-	2,100,000.00
Odudela Hall – Ward 07	-	-	2,100,000.00
Nkalankala Hall –Ward 11	-	-	2,100,000.00
	15,514,139.60	**2,516,454.00**	**12,800,000.00**
BRIDGES & CAUSEWAYS			
Thokoza Bridge – Ward 09	-	3,000,000.00	200,000.00
Mpolweni Causeway – Ward 11	436,094.00	-	-
Nhloya Bridge – Ward 10	1,337,137.26	-	-
Patsoana Bridge –Ward 08	-	-	2,000,000.00
	1,773,231.26	**3,000,000.00**	**2,200,000.00**
SPORT FACILITIES			
Mafihleng sport field – Ward 13	1,795,660.50	-	-
Nkande sport field – Ward 17	557,332.32	-	-
Upgrading of Nquthu Stadium – Wa	11,000,000.00	-	500,000.00
Springlake sport filed – Ward 12	-	4,000,000.00	300,000.00
Jama Horse Riding –Ward 04	-	4,000,000.00	300,000.00
Ngonini Sport field – Ward 10	-	-	4,000,000.00
	13,352,992.82	**8,000,000.00**	**5,100,000.00**
EARLY CHILD DEVELOPMENT FACILITIES			
Mpumelelweni Crèche –Ward 14	-	1,000,000.00	100,000.00
Magabeni Crèche – Ward 07	-	800,000.00	80,000.00
	-	**1,800,000.00**	**180,000.00**
ROADS	21,141,496.74	8,786,564.95	14,760,787.00
HALLS	15,514,139.60	2,516,454.00	12,800,000.00
BRIDGES & CAUSEWAYS	1,773,231.26	3,000,000.00	2,200,000.00
SPORT FACILITIES	13,352,992.82	8,000,000.00	5,100,000.00
EARLY CHILD DEVELOPMENT FACILI	-	1,800,000.00	180,000.00
TOTAL MIG BUDGET	**51,781,860.42**	**24,103,018.95**	**35,040,787.00**
IN HOUSE FUNDED PROJECTS			
Machitshana Hall (Release of Reter	150,000.00	-	-
Mahlungulu Hall (Release of Reten	150,000.00	-	-
Ezinkodlwaneni Storm water Diver	200,000.00	-	-
Ubemba Road - Ph-1 (Release of re	200,000.00	-	-
Nquthu CBD Storm Water Manager	350,000.00	-	-
Stores offices – Renovation – Ward	500,000.00	650,000.00	-
Vehicle Testing Ground –Ward 14	500,000.00		

Part 2 – Supporting Documentation

7. Overview of the annual budget process

The Budget Preparation Process plan was supposed to be adopted by the municipal council on 31 August 2016 as legislated for the preparation of 2017/2018 – 2019/2020 budget. However after the elections that were held 0n the 3rd of August 2016 the municipal council failed to established itself until the KZN Provincial Government intervened in terms of the Constitution section 139 (1) (b) in October 2016, and section 139 (1) (c) was revoked in February 2017. The process plan was therefore approved by the Administrator appointed in terms of the said section.

Public meetings were limited during the preparation of the budget. But the community will be more involved in the budget that will be tabled for public comments. The Budget steering committee meetings have been held as per the process plan for the municipal officials.

8. Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents.

The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the municipality strategically complies with the key national and provincial priorities.

The IDP drives the strategic development of the Municipality. The Municipality's budget is influenced by the strategic objectives identified in the IDP. The service delivery budget implementation plan (SDBIP) ensures that the Municipality implements programmes and projects based on the IDP targets and associated budgets. The performance of the Municipality is tabled in its Annual report.

Below is the table which shows the link between IDP, Budget and National and Provincial objectives.

9. Measurable performance objectives and indicators

- **Financial Indicators**
  Liquidity ratios
  Debtors and creditors management

10. Overview of budget related-policies

The budget policies had not been changed for this financial year. These are the policies that we have in the municipality.

- Tariff Policy on Property Rates
- Tariff Policy on Electricity
- Tariff Policy on Refuse Removal/Solid Waste
- Municipal Property Rates Policy
- Credit Control and Debt Collection Policy
- Cash Management and Investment Policy
- Borrowing Policy
- Funding and Reserves Policy
- Policy related to long-term financial planning
- Supply Chain Management Policy

- Policy related to the Management and Disposal of Assets
- Policy relating to dealing with infrastructure investment and capital projects
- Indigents Policy
- Budget Implementation and Management Policy

The Municipal Property Rates Policy has proposed amendments emanating from the amendments made to the Property Rates Acts. The SCM policy has been amended to include the regulations that have been amended.

11. Overview of budget assumptions

The municipality is not immune to the current economic climate facing the country and there has been a slow payment for services rendered by the consumers. We are also experiencing high losses on the electricity trading account and the Electricity department is looking at means to reduce these losses and turn-around the situation.

In light of this challenge we have adopted a conservative approach when dealing with the available resources and we are continuously putting aside excess unspent funds into reserves for future usage. We aim to keep our current ratio to be above six months considering that we are facing such challenges as the municipality.

The municipality is receiving the MIG R 42 million (2017: R 29 million) as well as INEP R 24 million (2017: R 18 million) which is used to fund the infrastructure investments. An amount of R 11 million is ring-fenced for sports infrastructure.

12. Overview of budget funding

The municipal is still highly dependent on Equitable Share to fund its operations. The current year Equitable Share is R 115 million, set to increase to R 121 million in 2018/2019.

The municipality is currently putting cash not immediately needed on short-term investments that do not exceed a period of 90 days so that interest could be earned to fund the operations of the municipality.

13. Expenditure on grants and reconciliations of unspent funds

The municipality always strives to fully spend its conditional grants within a prescribed year, however there are instances where such could not be achieved. An application is done to the donor for pardon and to use these funds in the next period.

It is confirmed that all the grants that are not spent as at year-end are fully cash backed as required.

14. Allocations on grants made by the municipality

There are no grants that are made by the municipality to any outside entity.

15. Councilor and employee benefits

The councilor remuneration is currently paid out using the recent councilor remuneration gazette and we have been graded as Grade 3 for the purpose of councilor remuneration. There are currently 33 councilors, as per the current determination by the MEC for full-time councilors for the term of council there was no office-bearer determined to be full-time.

The management is made up of 5 managers who are all on contracts. The whole staff complement is 170 employees.

The salaries budget will be increased in line with the salary collective agreement and the average CPIX as published by Treasury.

Although all posts are fully budgeted for in the current year, however a strategic decision has been taken that only critical posts will be filled in the coming year, in line with cost containment measures being implemented.

16. Monthly targets for revenue, expenditure and cash flow

17. Annual budgets and SDBIPs – internal departments

18. Contracts having future budgetary implications

The municipality does not have any contracts that are beyond the 3 year that is being budgeted for. The main contracts being used are for security, lease of photocopy machines.

19. Capital expenditure details

The capital budget of the municipality is mainly made up of MIG as well as own funding. Due to the high backlog of the infrastructure in our area it is always difficult for the municipality to spend 40% of its capital budget on Renewal of Existing Assets – that is required – due to the fact that we must still service those backlog. But we are gradually investing on the Renewal of Existing Assets.

CAPITAL FUNDING		2017/2018	2018/2019	2019/2020	
MIG		51,781,860.42	24,103,018.95	35,040,787.00	
INEP		24,000,000.00	20,000,000.00	300,000.00	
Own funding		23,025,000.00	30,275,000.00	29,440,000.00	
Total Capital Budget		**98,806,860.42**	**74,378,018.95**	**64,780,787.00**	

The priority for Renewal of Existing Assets is currently the ageing electricity infrastructure, budgeted at R 4,3 million in the 2018/2018 budget year and set to increase in the ensuing years.

20. Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting

   Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the municipality's website.

2. Internship programme

   The municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department.

3. Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

4. Audit Committee and Internal Audit

An Audit Committee has been established and is fully functional. The Internal Audit function is co-sourced with an internal staff member as well as consulting firm.

5. Service Delivery and Implementation Plan

The draft SDBIP has been prepared

6. Annual Report

Annual report for the period ending 30 June 2016 has been compiled in terms of the MFMA and National Treasury requirements.

7. MFMA Training

All the Senior Managers, middle management and SCM officials has undertaken the minimum competency levels training and this is now being cascaded to the Middle management as well as other officials within the municipality.

8. Policies

The amendments made to the Municipal Property Rates Act has been consolidated to the Rates Policy.

9. Central Supplier Database

With the introduction of the Central Supplier Database the municipality has been assisting all the local service providers to register on this platform so that they can be able to vend with the municipality, quite a number of vendors are now registered. This is facilitated by the LED department in consultation with the SCM unit.

10. Financial Management Capability Maturity Model

The municipality is implementing the plan to address all the issues that were raised in the assessment.

21. Other supporting documents

The supporting documents in the form of budget schedules have been printed under the A schedule.

22. Municipal standard chart of accounts (M-SCOA)

The municipality is currently undertaking all the regulated processes and directives of the M-SCOA circulars.

Our current service provider being Sebata will be our main system provider for EMS and then we will use the following sub-system.

- Payroll – VIP/Sage
- Assets – Baud/PWC
- Prepaid – Ontec (formerly Itron)

The integration processes are currently underway that will ensure that this is seamlessly as required by the regulations.

The following has been achieved so far:

- Tabling of M-SCOA regulations to council
- Steering committee selection
- Project champion election
- M-SCOA risk register
- Submission of Activity/business plan
- MOU with current service provider
- Monthly steering committee meetings

The current estimates for M-SCOA implementation is R 2, 6 million and this shall be funded from MFMG as well as own funding. There is a IT infrastructure that the municipality must invest in for the future as currently we are on the solution that is hosted by the service provider rather than the one hosted at our premises.

23. Municipal Manager’s quality certificate

I …………………………………, Municipal Manager of Nquthu Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name: ____

Municipal Manager of Nquthu Municipality (KZN242)

Signature: ____

Date: ______________________________